

Annexure A

**SCHEDULE AN ANNUAL BUDGET AND SUPPORTING DOCUMENTATION
OF Ingwe Municipality**

**2013/14 TO 2016/17 MEDIUM TERM REVENUE AND EXPENDITURE
FORECASTS**

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2014 INGWE MUNICIPALITY BUDGET REPORT

DATE: 28 MARCH 2014

BY: MAYOR

COUNCILLOR NOMAGUGU LUZULANE



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Abbreviations and Acronyms

AMR Automated Meter Reading

ASGISA Accelerated and Shared Growth Initiative

BPC Budget Planning Committee

CBD Central Business District

CFO Chief Financial Officer

CPI Consumer Price Index

CRRF Capital Replacement Reserve Fund

DBSA Development Bank of South Africa

DoRA Division of Revenue Act

DWA Department of Water Affairs

EE Employment Equity

EEDSM Energy Efficiency Demand Side Management

EM Executive Mayor

FBS Free basic services

GAMAP Generally Accepted Municipal Accounting Practice

GDP Gross domestic product

GDS Gauteng Growth and Development Strategy

GFS Government Financial Statistics

GRAP General Recognised Accounting Practice

HR Human Resources

HSRC Human Science Research Council

IDP Integrated Development Strategy

IT Information Technology

KPA Key Performance Area

KPI Key Performance Indicator

LED Local Economic Development

MEC Member of the Executive Committee

MFMA Municipal Financial Management Act
Programme

MIG Municipal Infrastructure Grant

MMC Member of Mayoral Committee

MPRA Municipal Properties Rates Act

MSA Municipal Systems Act

MTEF Medium-term Expenditure Framework

MTREF Medium-term Revenue and Expenditure Framework

NERSA National Electricity Regulator South Africa

NGO Non-Governmental organisations

NKPIs National Key Performance Indicators

OHS Occupational Health and Safety

OP Operational Plan

PBO Public Benefit Organisations

PHC Provincial Health Care

PMS Performance Management System

PPE Property Plant and Equipment

PPP Public Private Partnership

PTIS Public Transport Infrastructure System

RG Restructuring Grant

RSC Regional Services Council

SALGA South African Local Government Association

SAPS South African Police Service

SDBIP Service Delivery Budget Implementation Plan

SMME Small Micro and Medium Enterprise

Speaker
Deputy Mayor
Members of Executive
Chief Whip
Honorable Councillors
Ondabezitha
Management and Staff

Speaker, "We the people of South Africa celebrates 20 Years of Freedom and democracy. This momentous occasion presents an opportunity for us to reflect on how our freedom and democracy were achieved; the progress we have made the past 20 years; and on how South Africans will work together to implement Vision 2030.

- Our Constitution lays the basis for the construction of a democratic, non-racial, non-sexist, united and prosperous society based on justice, equality, the rule of law and the inalienable human rights of all.
- One of the symbolic moments of the exodus from the past was the raising of the new flag in 1994. This moment aptly affirmed the pride and dignity of an unfolding country and a celebration of humanity. "

Councillors and All Stakeholders, "we must never forget that our democratic birth was rightly hailed as a miracle. Those who wanted us to fail had predicted chaos and civil war. However, none of these things came to pass and the values of democracy and freedom of our birth still endure today. Compared to before 1994 we can proudly proclaim that millions of people now have water, electricity, sanitation and housing. By our own standards, we declare that this is not good enough; that we must not rest until all the people can claim a better life."

Colleagues "the release of the Census 2011 figures shows a classic picture of a country that is swiftly changing. The figures paint the picture of a country that has increased income levels, a development in the roll-out of basic services and amenities, and increased levels of education"

Whilst celebrating our achievements we must also look forward to the next 20 years. The National Development Plan (NDP) is our roadmap. The plan outlines the type of society we are striving for in 2030, where no one is hungry, where everyone is able to go to school and further their studies if they wish, where work is available, where everyone is making a contribution because each person has been provided with what they need to reach their full potential."

"Working together we can achieve more"

2014/15 Medium Term Budget

Speaker, "the 2014/15 medium term budget we are presenting here today attempts to strike a balance between on-going service delivery imperatives and responding to the developmental challenges confronting the Ingwe Municipality. This Budget also provides us with an opportunity to assess our service delivery performance and challenges and review the effectiveness of current programmes. It has been prepared within a context of transition."

Fellow colleagues, "I would like to extend my sincere appreciation to all those residents and businesses who continue to uphold the Municipality by paying for their services. I encourage you to continue with this practice as responsible consumers".

Speaker, “the underlying principles of this budget are as follows:”

- Ensuring that in drafting their 2014/2015 budget, continue to explore opportunities to promote labour intensive approaches to delivering services and more particularly to participate fully in the Expanded Public Works Programme
- Focus on maximizing job creation
- Elimination wasteful, spending and ensuring savings on consultancy fees, no credit cards, travel and related costs, advertising, catering and events costs as well as for accommodation
- Consistency with the IDP and achievable in terms of service delivery and performance targets

Education

Research has shown that the historically disadvantaged background to black education is still impacting negatively on the level of education in most rural schools, the minimum level required for functional literacy is a Grade 6 preferably Grade 7. A number of the following factors attribute to the low levels of education in the Ingwe Local Municipality: Poor or non-existence of educational facilities; Limited investment in education particularly in previously disadvantaged areas; The Bantu education system which literally discouraged women to attend school; and The previous social culture, which was prevalent in most African communities that looked upon everything provided by the Europeans with suspicion. Ingwe Municipality fully support the Millennium developmental goal to provides a framework for the entire international community to work together towards a common end i.e. making sure that human development reaches everyone, everywhere.

- A budget of R500 000 has been set aside for Education and Support Bursaries in order to encourage and support Ingwe scholars to further their studies after matriculation
- A student support has now been increased from R5000 to R10 000 per student

Employment

According to 2011 Census by Stats’, fewer than 10% of people are employed in Ingwe. Around 5% are unemployed and around a further 4% are discouraged work seekers. Women are most obviously disadvantaged. Most children are economically inactive – further reflecting the youthful nature of the population. Income levels are possibly the most telling indicators of poverty. 58% of the Total Population is categorized as having **NO INCOME**. After the income group earning up to R20 000 annually – the numbers of people earning more are statistically insignificant.

Many employment opportunities will be created as the municipality fully supports the Labour intensive approaches when delivering services and spending 2014/2015 capital budget

National Treasury allocated R1 000 000.00 for 2014/2015 to fund Expanded Public Works Programme

Poverty alleviation budget of R260 000 has been set aside for support of SMMEs and Cooperatives as well as company registration support

Electricity

The majority of the households in Ingwe does not have access to electricity and are reliant on alternative energy sources such as firewood. This has also been caused by the poor power supply by Eskom before the completion of Korinte substation. All this has significant implications in terms of the natural resources of the area. Candles and paraffin are mostly used by the other half. Department of Minerals and Energy allocated R5 000 000.00 to Ingwe Municipality for household electrification. Due to huge of electricity backlog the municipality has put on hold other roads projects in order to finance electrification projects. An amount R18 684 000 (R19 000 000, 2014) for 2014/2015 financial year. has been set aside to reduce this electricity backlogs around Ingwe Area.

Roads Community Facilities and Sport fields

For the past 5 years a lot improvement has been made to change infrastructure backlog, through the support of Municipal Infrastructure Grant and Department of Transport. Much work is still needed. An amount of R23 497 000 has been allocated for Municipal Infrastructure projects, R7112 000 has been set aside to ensure provision of access roads, R16 400 000 has been allocated to ensure the provision of community facilities, sport fields and toilets in Donny brook and Centocow taxi ranks, Harry Gwala District Municipality and DoTs will also do other infrastructure projects in the area of Ingwe which are enlisted in the draft 2015 IDP

Repairs and Maintenance

To ensure maintenance and renovation of existing infrastructure. Funds have been set aside for the following

Develop maintenance and operation plan	300 000
Building and Halls	4 888 000
Railway line maintenance	312 000
Halls & sport-field maintenance	260 000
Fencing and fire-breaks	1 560 000
Public toilets maintenance	62 400
Ensure maintenance of municipal roads and drains	520 000
Maintenance of Road Signs	31 200

Housing

Over the past decade a number of formal housing projects, drawing on subsidies from the Department of Human Settlements has been initiated. However there has been a noticeable delay over the implementation of other Housing projects. By far the greatest need for housing services upgrade is in the tribal areas where the majority of the rural population is located. The land is mostly owned by the Ingonyama Trust and administered by the Tribal structures. Unfortunately the issues around the release of Ingonyama Land for housing upgrades and the mechanisms for registering ownership or use rights such as permission to occupy or long leases are rather complex at this stage. All traditional authority areas have expressed a need for housing development. Six(6) projects are to be added to the list for submission to the Department of Human Settlement, those are Mpumulwane Rural Housing, Gala Rural Housing, Ntekaneni Rural Housing, Ntakama Rural Housing, Sizanenjana / Buthu Rural Housing, Mdtshini Housing

Other Community Programms

The purpose of Operation Sukumakhe aims to rebuild the fabric of society by promoting human values, fighting poverty, crime, diseases, deprivation and social ills, ensuring moral regeneration, by working together through effective partnerships. Partnerships include civil society, development partners, communities and government departments, to provide a comprehensive integrated service package to communities.

R10 670 300 has been set aside to deal with socio-economic challenges

- Operation Sukuma Sakhe Arts
- Sports Developments Project
- Arts and Culture Projects
- Free basic electricity
- Local Economic Development Projects
- Special Programms/HIV and Aids/Woman's
- HIV/Aids
- Mayoral cup
- Youth Development
- Free Basic Electricity

Tariffs

Speaker, the municipality annually reviews its tariffs in line with the Council's Tariff Policy. The policy provides a broad framework within which Council can determine fair, transparent and affordable service charges that also promote the sustainability of service provision, taking into account the social, economic and financial imperatives of the Municipality.

The 2014/15 financial tariff increases were driven by the following broad considerations. The proposed tariff increases for the major services are therefore as follows: Property rates will increase by 6.4% for all categories of properties; Refuse removal tariff increase of 6.4%; Speaker, one of the principles of the Municipal Policy is premised on social considerations. This calls for tariffs that are equitable, affordable, and that promote access to basic services for everyone, including the poor. The new tariffs for have added for Building plan and Pound operations (the pound tariffs are based on KZN Pound acts)

Grants

No new grant has been received by the Municipality when comparing to 2013/2014 Budget year. The following grants have been gazette for 204/2015 Budget year.

GRANT	FUNDER	AMOUNT
MIG	National Treasury	- 23,497,000.00
MSIG	National Treasury	- 934,000.00
FMG	National Treasury	- 1,800,000.00
Equitable Share Grant	National Treasury	- 62,020,000.00
Provincialisation of Libraries	KZN Arts and Culture	- 844,000.00
Community Library Services Grant	KZN Arts and Culture	- 146,000.00
Sports and Recreation	KZN Sports and recreation	- 150,000.00
Expanded Public Works Programme	National Treasury	- 1,000,000.00
ENEP	DME	- 5,000,000.00

Conclusion

I reiterate my willingness to work together with all political parties, stakeholders and communities to find workable solutions for the diverse range of developmental challenges facing the Ingwe Municipality. We are convinced that the Ingwe has a clear roadmap for delivery – both in the immediate and short term as well as in developing a process for long

term development even after we have emerged with KwaSani Municipality by 2016. The Municipality is poised for an exciting new chapter in its history and let us all work together to help create a better Ingwe through the building of better communities.

Taking the abovementioned explanation into account, I hereby recommend that the council may approve the final budget

I thank you

1.2 BUDGET RELATED RESOLUTION

RECOMMENDED

1. That the Final budget for the 2014/2015 budget year be approved as set-out in the following schedules:

1.1 Final Budget Summary (Financial Performance, Capital Expenditure and Fund Sources, Financial Position, Cash Flow & Assets Management)

1.2 Final Budget Financial Performance (Revenue and Expenditure by Standard classification)

1.3 Final Budget Financial Performance (Revenue and Expenditure by Vote)

1.4 Final Budgeted Financial Performance (Revenue and Expenditure)

1.5 Final Budgeted Capital Expenditure (by Vote, Standard classification and funding)

2 That the financial position, cash flow, cash-backed reserve/accumulated surplus, asset management and basic service delivery measurement are adopted as set out in the following tables

2.1 Final Budgeted Financial Position

2.2 Final Budgeted Cash Flows

2.3 Cash backed reserves & accumulated surplus Reconciliation.

2.4 Asset Management

2.5 Basic Service Delivery Measurement

3. That the recommendations of the Budget Steering Committee be approved

4. That the revisions to the monthly and quarterly service delivery targets and indicators in the service delivery and budget implementation plan be approved.

1.3 EXECUTIVE SUMMARY

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The municipality has embarked on implementing a debt collection strategy to optimize the collection of debt owed by consumers. Furthermore the municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

The following table is a consolidated overview of the proposed 2014/2015 final budget and medium term revenue and expenditure framework:

Table 1 Consolidated Overview of the 2014/2015

R Thousand	Adjustments Budget 2013/2014	Budget year 2014/2015	Budget year 2015/2016	Budget year 2016/2017
Total Operating Revenue	103 645	109 495	129 763	131 989
Total Operating Expenditure	72 964	83 291	48 498	50 817
Surplus/Deficit for the year	30 680	26 204	81 265	81 172
Total Capital Expenditure	92 261	47 443	11 457	12 076

Total operating revenue has increased by 5.64% for the year 2014/2015 financial year when compared to the adjustments budget. For the two outer years, operational revenue has increased by 18.5% and 20.5% when compared to 2014/2015 financial year

Total operating expenditure for the 2014/2015 financial year has been appropriated at R 83 million and translates into a surplus of 26 million. When compared to the 2013/2014 Adjustments Budget, operational expenditure has increased by 14% when compared to the Adjustments budget. For the outer years it has dropped respectively. The operating surplus for the outer years steadily increases to 81million. These surplus will be used to fund capital expenditure and to further ensure cash backing of reserves and funds

The capital budget of 47 million for 2014/2015 is 48.6% less when compared to the adjustment budget. The reduction is due to roll over which was included in the adjusted budget and various projects being finalised in previous financial year as well as affordability constraints in the light of current economic trends. Capital projects will be funded by grants and internally using our cash back reserves.

Operating Revenue Framework

For Ingwe Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding, hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy
- Efficient revenue management, which aims to ensure a 99 per cent annual collection rate for property rates and other key service charges,
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) MPRA,
- Increase ability to extend new services and recover costs
- The municipality's Indigent Policy and rendering of free basic services and
- Tariff policies of the Municipality

The following table is a summary of the 2014/2015 MTREF(classified by main revenue source):

Table 2 Summary of revenue classified by main source

Description	Ref	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
R thousand	1										
Revenue By Source											
Property rates	2	2 537	3 522	4 693	11 000	3 900	51 937	51 937	4 700	4 954	5 221
Property rates - penalties & collection charges		75	135	434	-	-	-	-	6	6	7
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	289	310	449	450	300	100	100	350	369	389
Service charges - other											
Rental of facilities and equipment		203	208	212	190	281	271	271	293	309	325
Interest earned - external investments		2 717	3 924	4 504	3 800	4 000	3 724	3 724	4 000	4 216	4 444
Interest earned - outstanding debtors		-	-	-	-	-	-	-	-	-	-
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines		95	35	111	200	200	175	175	300	316	333
Licences and permits		-	-	-	-	-	-	-	-	-	-
Agency services		-	-	-	-	-	-	-	-	-	-
Transfers recognised - operational		38 675	50 526	54 216	60 342	61 192	63 030	63 030	70 746	85 595	86 305
Other revenue	2	43	343	2 249	498	429	422	422	453	478	504
Gains on disposal of PPE		-	626	(8)	-	-	(88)	(88)	-	-	-
Total Revenue (excluding capital transfers and contributions)		44 634	59 629	66 860	76 480	70 302	119 571	119 571	80 848	96 243	97 528

In line with the formats prescribed by Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus or deficit.

Grants remain the largest revenue source and property rates is the second and third largest source is interest on investment and the fourth one is other revenue. Departments have been urged to review the tariffs of the items on annual basis to ensure they are cost reflective and market related

Operating transfers and grants receipts

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and affordability of services were taken into account to ensure the financial sustainability of the municipality.

National Treasury continues to encourage municipality to keep increases in rates, tariffs and other charges as low as possible. Municipality must justify in their budget documentation all increases in excess of CPI upper boundary of the South African Reserve Bank's inflation rate. Excessive increase are likely to be counterproductive, resulting in higher levels of non-payments.

Property Rates

Property rates cover the costs of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process

National Treasury's MFMA Circular No.51, inter alia with the implementation of the Municipal Property Rates Act, with regulations issued by the Department of Cooperative Governance. This came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0.25:1

The following stipulations in the Property Rates are highlighted:

- The first R 15000 of the market value of property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA).
- 30% rebate will be granted for developed properties
- 35% rebate will be granted to agriculture
- 100% rebate will be granted to registered indigents in terms of the Indigent Policy
- For pensioners, physically and mentally disabled persons, a maximum/total rebate of 75% to owners of rate-able property if the total gross income of the applicant and/his spouse, if any, does not exceed the amount equal to twice the annual state pension as approved by Government for a financial year. In this regard the following stipulations are relevant:
 - The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income.
 - The applicant must submit proof of his/her age and identity and in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension
 - The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place
 - The property must be categorized as residential

Waste Removal and Impact of Tariff Increases

Current solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is not the case. The Municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors factor to this deficit are repairs and maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration. Considering the deficit, it is recommended that a comprehensive investigating alternative service delivery models.

The outcomes of this investigation will be incorporated into the next planning cycle.

Service charges

Percentage growth is higher than a CPI because Ingwe Municipality has taken into account prior collection trends and its possible to collect this revenue.

Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

Note that in all instances the overall impact of the tariff increases on households bills has been kept to between 5.6 per cent as well as the increase in indigent households

Operating Expenditure Framework

The expenditure framework for the 2014/2015 budget is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit
- Funding of the over the medium-term as informed by Section 18 and 19 of the MFMA,
- Strict adherence to the principle of no project plan no budget. If there is no business plan no funding allocation can be made.

Summary of operating expenditure by standard classification item

Description	Ref	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
R thousand	1										
Employee related costs	2	12 511	15 633	19 732	24 393	24 644	19 855	19 855	31 924	1 274	1 361
Remuneration of councillors		4 535	5 543	5 931	6 392	6 392	4 829	4 829	6 728	-	-
Debit impairment	3	147	246	3 893	475	425	142	142	442	481	513
Depreciation & asset impairment	2	5 901	3 589	4 697	5 000	5 000	5 711	5 711	5 975	5 639	6 022
Finance charges		251	251	300	317	347	341	341	361	380	400
Bulk purchases	2	-	-	-	-	-	-	-	-	-	-
Other materials	8	-	-	-	-	-	-	-	-	-	-
Contracted services		790	1 486	2 727	3 359	3 285	3 823	3 823	4 068	3 890	3 655
Transfers and grants		914	847	706	1 250	950	340	340	1 300	1 381	1 468
Other expenditure	4, 5	36 494	48 323	76 386	28 832	31 921	31 157	31 157	32 491	35 453	37 397
Loss on disposal of PPE		6	(284)	-	-	-	-	-	-	-	-
Total Expenditure		61 548	75 636	114 373	70 018	72 964	66 198	66 198	83 291	48 498	50 817

Employee Related Costs

The budgeted allocation for employee related cost for the 2014/2015 financial year totals 38 million .Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 6.8 percent for the 2014/2015 financial year .An annual increase of 6.4 per cent has been included in the two outer years of the MTREF. The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act,1998(Act 20 of 1998).Salaries has increase because of some new position that are included into Ingwe Municipality's organogram.

The provision of debt impairment was determined based on an annual collection rate. For the 2014/2015 financial year this amount equates to R 442 thousand and escalates to R 513 thousand by 2016/2017.While this expenditure is considered to be non-cash item, it informed the cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the rate asset consumption. Budget appropriations in this regard total R 5 million for the 2014/2015 financial and equates to 7 per cent of the total operating expenditure.

Finance charges consists of lease payable to Nashua for their photocopying machine that Ingwe is using

In line with repairs and maintenance plan this group of expenditure has been priotised to ensure sustainability of the Municipality's infrastructure assets.

Free Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy. The target is to register 4000 or more indigent households during the 2014/2015 financial year a process reviewed annually.

Capital expenditure

Capital expenditure funding is funded by grants which is an amount of R28 million and internal generated funds of R18 million which has been taken from cash backed accumulated surplus.

Annual Budget Tables-Parent Municipality

The following pages present the ten main budget tables as required in terms of section 8 of the Municipal Budget and Regulations. These tables set out the municipality's 2014/2015 budget and MTREF as approved by the Council. Each table is accompanied by explanatory notes on the facing page.

2.1 Explanatory notes to MBRR Table A1-Budget Summary for 2014/2015 Financial year.

- .Table A1 is a budget summary and provides a concise overview of Ingwe Local Municipality's budget from all the major financial perspectives(operating ,capital expenditure, financial position, cash flow and MFMA funding compliance.
- The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
- .Financial management reforms emphasises the importance of the municipal budget being funded. The Budget Summary provides the key information in this regard
 - Transfer recognised is reflected on the Financial Performance Budget
 - Internally generated funds is financed from a combination of the operating surplus and accumulated cash-backed surplus from previous years. The fact that the municipality's cash flow remains positive ,and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
- .Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The municipality is committed to provide free basic services to the needy community. In addition ,the municipality continues to make progress in addressing service delivery backlogs.

2.2 Explanatory notes to MBRR Table A2-Budgeted Financial Performance(revenue and expenditure by standard classification)

1.Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into its functional areas. Municipal revenue, operating expenditure are then classified in terms if each of these functional areas which enables the National Treasury to compile 'whole of government' reports

2.3 Explanatory notes to MBRR Table A3-Budgeted Financial Performance(revenue and expenditure by municipal vote)

1.Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure. This means it is possible to present the operating surplus or deficit of a vote. The table shows the analysis of the surplus or deficit

2.4 Explanatory notes to Table A4-Budgeted Financial Performance(revenue and expenditure)

1.Total revenue is R 80 million in 2014/2015 and escalates to R 97 million by 2016/2017.This represents a year-on –year increase.

2.Revenue to be generated from property rates is R 4 million in 2014/2015 financial year and increases to R 5 million 2016/2017 which represents 5.8 per cent of the operating revenue base of the municipality and therefore remains a significant funding source for the

municipality. Property rates has increased more than CPI because of the prior collection trends.

2. Transfers recognised-operating includes the local government equitable share and other grants from national and provincial government. It is noted that the grants remains a significant and high funding source for the municipality.

FINAL BUDGET ASSUMPTIONS

1. Given the constraints on the revenue side, the Council took very tough decisions on the expenditure side. Priority was given to:

- Protecting the poor from the worst impacts of the economic downturn
- Expediting spending on capital projects that are funded by conditional grants.

2. In preparing the final budget, the following priorities were taken into account:

- Deliver more and better services in a caring and efficient manner
- Hold political office bearers and public servants accountable

The challenge for the municipality is to do more within its existing resource envelope

3. Over the next few years, the municipality must deliver more services- and deliver them more efficient-within a tight resources envelope. Achieving this objective requires requires a new way of working:

- The final budget has been reprioritized so that money is moved from low-priority programmes to high priority programmes.

2. FINAL BUDGET FUNDING

2.1 Final budget is funded as follows:

• Rates	4 700 000.00
• Other Income	5 062 550.00
• Refuse	350 000.00
• Investment Income	4 000 000.00
• Accumulated Surplus	20 146 627.97
• Equitable Share	62 020 000.00
• MIG	23 497 000.00
• DME	5 000 000.00
• FMG	1 800 000.00
• MSIG	934 000.00
• Sports & Recreation	150 000.00
• Provincialisation of Libraries	835 000.00
• Community Libraries	146 000.00
• Expanded public works	1 000 000.00
Total	129 641 177.97

2.2 The future fiscal sustainability of the Council is not very positive. The following are contributing factors for this situation:

- The continued inability of consumers to settle outstanding accounts
- Government departments not paying their rates accounts
- Poor of revenue base as the are of ingwe is mostly rural
- The continued dependency on grant funding from the national government

3.3 Investments

At present the Council does not have long term investments to fund the operating or capital expenditure. The investment portfolio for the Council is short term investments for conditional grants received from National Treasury and other organization of state.

Explanatory notes to Table A5-Budgeted Capital Expenditure by vote, standard classification and funding source

- Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote, capital expenditure by standard classification, and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
- The capital programme is funded by grants, donations and internally generated funds

Explanatory notes to Table A6-Budgeted Financial Position

- Table A6 is consistent with international standards of good financial management practice, and improves understand ability for councillors and management of the impact of the budget on the statement of financial position(balance sheet)
- .This format of presenting the statement of financial position is aligned to GRAP1,which is generally aligned to the international version.
- .Any movement on the budgeted financial performance or the capital budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalent at year end.
- SA3 provide a detailed analysis of the major components of a number of items, including
 - Call investments deposits
 - Consumer debtors
 - Property, plant and equipment
 - Trade and other payables
 - Provisions non current
 - Change in net assets,
 - Reserves

- .The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets on the municipality belong to the community.

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

- .The budgeted cash flow statement is the first measurement in determining if the budget is funded.
- .It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
- .Cash and cash equivalent totals R 93 million as at the end of the 2014/2015 and escalates to R 106 million by 2016/2017.

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

- The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
- In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
- The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be funded
- As part of the budgeting and planning guidelines that informed the compilation of the 2014/2015 MTREF the end objective of the medium framework was to ensure the budget is funded aligned to section 18 of the MFMA.
- Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2014/2015 MTREF is funded

Explanatory notes to Table A9 - Asset Management

- Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
- National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. The Municipality is working towards meeting both of these recommendations.

Explanatory notes to Table A10 - Basic Service Delivery Measurement

- Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services. The Municipality continues to make good progress with the eradication of backlogs:
- The number of household registered for indigent in 2014/2015 is expected to increase therefore entitled to receiving Free Basic Services, this is covered by municipality's equitable share

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aims of the Budget Steering Committee is to ensure:

that the process followed to compile the budget complies with legislation and good budget practices;

that there is proper alignment between the policy and service delivery priorities set out in the Ingwe IDP and the budget, taking into account the need to protect the financial sustainability of municipality;

that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and

that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2013) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule on 25 August 2012. Key dates applicable to the process were:

- **August 2013** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2013/2014 MTREF;
- **November 2013** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **3 to 7 January 2014** - Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
- **January 2014** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
- **28 January 2014** - Council considers the 2013/14 Mid-year Review and Adjustments Budget;
- **February 2012** - Recommendations of the Mayoral Committee are communicated to the Budget Steering Committee, and on to the respective departments. The final 2014/15MTREF is revised accordingly;

- **26 March 2014-** final Annual Budget and MTREF 2014/2017 and final IDP 2014/2015 tabled
- **April 2014-** Public is consulted on the final Annual Budget and MTREF 2014/2017
- **6 May 2012** - Closing date for written comments;
- **6 to 21 May 2012** – finalisation of the 2012/13 IDP and 2012/13 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **23 May 2014-** Annual Budget and MTREF 2014/2017 is tabled for consideration for adoption

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council

2.1.2 IDP and Service Delivery and Budget Implementation Plan

Ingwe IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

- Registration of community needs; e Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

2.1.3 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2014/15 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2014/15 MTREF:

- Local growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2013/14 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 70 and 72 and prior circulars has been taken into consideration in the planning and prioritisation process.

2.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

2.3 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Ingwe has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assesses and reviews organisational performance which in turn is directly linked to individual employee's performance.

Figure 5 Planning, budgeting and reporting cycle

The performance of the Ingwe relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Ingwe therefore has adopted one integrated performance management system which encompasses.

2.3.1 Performance indicators and benchmarks

2.3.1.1 Revenue Management

- As part of the financial sustainability strategy, an aggressive revenue management framework has been implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention of the strategy is to streamline the revenue value chain by ensuring accurate billing, customer service, credit control and debt collection.

2.3.1.2 Creditors Management

- Ingwe has managed to ensure that creditors are settled within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has managed to ensure a 100 per cent compliance rate to this legislative obligation. This has had a favorable impact on suppliers' perceptions of risk of doing business with the Ingwe, which is expected to benefit the local community in the form of more competitive pricing of tenders, as suppliers compete for the Ingwe's business

2.3.2 Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the Ingwe. Only registered indigents qualify for the free basic services.

2.4 Overview of budget related-policies

The Ingwe Municipality budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

2.5 Overview of budget assumptions

2.5.1 General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2014/2015 MTREF:

- National Government macro economic targets;
- The general inflationary outlook and the impact on Ingwe residents and businesses;
- The impact of municipal cost drivers;
- The increase in the cost of remuneration. Employee related costs MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget. The wage agreement SALGBC concluded with the municipal workers unions were taken into account.

2.6 Overview of budget funding

2.6.1 Medium-term outlook: operating revenue

The following table is a breakdown of the operating revenue over the medium-term: Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The Ingwe derives most of its operational property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees, licenses and permits etc.).

The revenue strategy is a function of key components such as:

- Growth in the city and economic development;
- Revenue management and enhancement;
- Achievement of a 95 per cent annual collection rate for consumer revenue

2.6.2 Cash Backed Reserves/Accumulated Surplus Reconciliation

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

- What are the predicted cash and investments that are available at the end of the budget? How are those funds used?

- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was available